A NEW POLICY ON THE PRIVATE SECTOR

by Dr. LÊ KHOA

The Government's monthly meeting in May, 2002 affirmed non-state sectors were an important part of the economy, and have contributed increasingly to the economic growth, export promotion and reduction in poverty. After the Companies Law (Jan. 1, 2000), more than 40,000 companies registered their establishment, VND55,500 billion more was put to business by these private companies, and some 750,000 new jobs were created. It's noteworthy that after the Companies Law, the average size of a company rose quickly, from VND900 in 2000 to VND1.2 billion in 2001 and 1.4 billion in the first half of 2002.

Recently, the Thiên Nam Limited Company has opened a VND75-billion spinning factory in Bình Dương that is much more modern than many state-owned factories. Thus, the private sector has made promising progress. However, there are some shortcomings in the Companies Law and the PM has asked the Ministry of Planning and Investment to gather information in order to perfect it.

In both theoretical and practical aspects, governments in developed countries don't support formation of state-owned companies and they encourage private persons to do it instead. In Vietnam, investment from all sectors, either private or public one, has been encouraged recently. This is a right and reasonable policy because it helps the gross investment rise quicker and facilitates higher growth rates. Difference between Vietnam and capitalist countries is the fact that the Vietnamese government has to adopt three macroeconomic policies dealing with three sectors (foreign, public and private ones) to promote the gross investment, while foreign ones need only a policy to encourage the private investment.

In this article, we want to discuss the policy on the private sector.

The manufacturing sector is the most important dynamic of fast economic development if new technologies are applied, and factor inputs and markets for its output are ensured. In recent years, most private investment, however, has been put in the trading, service and realty businesses instead of in the manufacturing industry. Causes of this situation are: demand for big investments and foreign competition. That is why the Government must make plan to help private persons to build new factories, secure bank loans, expand markets for their products and reduce costs.

1. New factories

The Government has publicized a list of 250 projects offered to foreign investors. Most of them, such as the Hà Tĩnh Steel Factory or the Asphalt Factory, require hundreds of millions of dollars in investment, which is beyond the reach of Vietnamese private companies. Hence the Ministry of Planning and Investment must work out projects of smaller sizes offered to the private sector. They will be projects that require small or medium investment and affect changes in the structure of industry, such as

factories making pulp from waste from sugar mills; farms producing young shrimps; factories making furniture or clothing for export; motorbike spare parts or computers, etc.

Most Vietnamese private persons are reluctant to invest in the manufacturing industry because they have limited knowledge of techniques and market demand, and they have no ability to produce cheap and high-quality goods. In fact, many local companies have succeeded in making cheap and high-quality goods and even exporting them. The Government had better establish technology transfer centers where experts in various fields (management, technology, marketing, production, etc.) can offer their services to the private sector. These centers will help private companies build modern factories or work out optimal financial plans for potential investors, thereby attracting more private investment to the manufacturing industry.

Local governments can help private businesspersons visit, or make studies of , successful companies with a view to encouraging them to engage in investment in the manufacturing industry.

2. Fund raising

a. State-owned companies are usually established by decisions by the State who provides them with capital, personnel and laborers. As for private companies, they must raise enough fund to build factories. This fund is usually from savings or fortune accumulated by owners of companies. Since the late 1980s, many private persons have made good fortune by doing business successfully, receiving investment from relatives living in foreign countries or taking advantage of wide fluctuations in the realty market. However, the average capital of VND1.2 billion for a private company is too small to undertake any important projects that usually require hundreds of billions. Therefor, we need encouragement from the State and mechanisms for establishing groups of companies. After these groups are formed, they could be provided with contracts by the Government, and allowed to undertake important projects and secure loans from state-owned banks. Moreover, they can sell project bills through banks to raise necessary funds. As for promising projects, banks could buy all bills and resell to the investing community. This method is common among developed countries because it helps shorten the time needed for raising funds and starting the project.

b. In certain developing countries, governments and private sectors cooperate in forming large companies. Banks for investment and provincial authorities usually take measure to encourage businesspersons to pool money to form companies. When a fund is formed, the local authorities could add some investment (which is may equal 50% to 200% of the fund depending on importance of the project). In such companies, private persons will have full control and the State only has its representatives elected to the Board of Directors. To preserve the state investment, following measures could be taken:

- The State has its share in profits, not in losses. In cases of bankruptcy, the State, as the leading creditor, will be paid wholly before the debtor's property is shared out among other creditors.
- Company must keep books properly and make regular financial disclosure as required. All payments and receipts must be made through banks, that is, the bank acts as the company's accountant. This measure aims at preventing possible wrongdoings.

This approach helps deal with shortage of capital in the private sector, thereby increasing the private investment. In South Vietnam in 1974, the Saigon government adopted the policy to invest in rural banks established and run by private persons. This policy helped increase the number of banks operating in rural areas before 1975.

This approach also deals with the bureaucracy that is common among state-run companies because all privately-run companies try to keep their workforce small and competent in order to ensure better profit and performance. This approach, moreover, encourages the use of banks as accountants. When all payments and receipts are made through banks, source of credits will be more abundant and as a result, the banks can cut their lending rates thereby saving costs for companies. At present, the lending rate in Vietnam is still high in comparison with foreign countries because banks have to pay interest payments to depositors (mainly savers). With their working capital increased by interest-free deposits from companies, the banks can reduce their lending rate remarkably.

With the current deflation and small increases in the price index, the public investment in private companies can help increase the inflation rate and changes in the price index. In recent years, the rise in the price index has been under 3%, which made it difficult for companies to earn reasonable profits.

3. Preferential interest rate

The preferential interest rate is to be offered to projects with important effects on the industrialization and modernization program, not to specific sectors. These projects must be provided with low-interest credits regardless of the fact that they are undertaken by either private or public sector.

The Government is providing low-interest loans to agricultural sector. This policy proved effective in helping peasants deal with difficulties caused by falls in prices of farm products on the world market. However, these prices tend to keep falling, which makes the policy less effective. If this policy is applied to projects in the manufacturing industry, and especially the private sector, it may produce very great effects on the economic growth.

4. Markets for the private sector

In the international integration process, it is unlikely to protect the local production by using tariff barriers. The best way to ensure the market shares for local producers is to enhance product quality and cut costs. The shortest way to achieve this aim is to import the most modern production lines. The number of obsolete production lines in Vietnam isn't big. This means that the replacement cost isn't too big. The Government had better adopt policies to encourage, and force, companies to import only state-of-the-art machinery. With modern technologies, along with cheap factor inputs, local factories can easily produce goods of high quality and low prices that could be exported or compete against foreign counterparts successfully.

When the market for local goods is ensured, the manufacturing industry can contribute more to the industrialization and modernization program and avoid making mistakes as in the 1980s when a lot of obsolete machines were imported.

To make these policies produce intended results, private businesspersons must obey laws and pay full attention to the public image and trustworthiness of their companies. They must accept international rules and practices if they want to survive and find footholds in the world market.■